Retiring Savings Bonds

Putting Common Sense over Sentimentality

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Savings bonds are as American as apple pie. They invoke images of Depression-era farmers securing their hard-earned money in an unstable economy, World War II patriots showing support for their country, students first learning how to invest, or grandparents contributing to their grandchildren's future.

But in today's world, where Americans have more financial options than ever before (many of which have the same federal protections as savings bonds), we should examine if the program still justifies the expense to the taxpayer. The savings bond program finances just 3% of our public debt, but it consumes an astonishing 70% of the resources for the Bureau of Public Debt.

Savings bonds were the right product at the right time when they were introduced in 1935 during the depths of the Great Depression, providing a shaken public with secure investments. Similarly, the Defense and War bonds issued from 1941 through 1945 played a critical role in financing World War II and combating inflationary pressures by absorbing excess consumer purchasing power in the wartime economy. Our present economy, however, is vastly different from the conditions that existed during the Great Depression or World War II, where we now have a low rate of inflation and rising unemployment. Today, many federal officials are concerned about maintaining consumer spending rather than reducing it.

The Bureau of Public Debt borrows the money necessary to operate the federal government, financing the publicly held debt through two programs, savings bonds and marketable securities. The role of savings bonds in this relationship has diminished over time.

Savings bonds accounted for 26% of the public debt immediately following World War II. That percentage gradually fell to around eight percent two decades ago and has continued its downward trend to just three percent today.

However, the overhead for the program will cost the taxpayer $154.3 million this year alone. The savings bond program has an enormous 53-to-1 difference in overhead compared to the overhead of the marketable securities programs (.0015% versus .08%).

At a time when Congress has returned to deficit spending and is trying to balance the demands for increased homeland security with other domestic programs, we simply cannot let sentimentality for days gone by become an excuse for government waste.

Of course, there will be opposition. My neighbor in Oklahoma, who works for the program, came over to my house fuming mad when he found out about my $22-million cut in the savings bond marketing budget this year. But Congress must make difficult decisions if America is to remain fiscally healthy in this time of escalating spending. The savings bond program has been a great success, but it’s time to retire.